



Energy for  
generations

# **INTERIM ACCOUNTS 2013**

**Consolidated Condensed Financial Statements  
as at and for the six month period ended  
30 June 2013**





Energy for  
generations

esb.ie

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## **Responsibility statement of the board members in respect of this half-yearly financial report**

We confirm that to the best of our knowledge and belief that the unaudited consolidated condensed set of financial statements for the six month period ended 30 June 2013, which comprise the consolidated condensed income statement, the consolidated condensed statement of comprehensive income, the consolidated condensed balance sheet, the consolidated condensed cash flow statement, the consolidated condensed statement of changes in equity and the related notes thereto, have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

On behalf of the Board,

Lochlann Quinn

*Chairman*

Pat O'Doherty

*Chief Executive*

26 September 2013





KPMG  
Chartered Accountants  
1 Stokes Place  
St. Stephen's Green  
Dublin 2  
Ireland

## Independent review report of KPMG to the Electricity Supply Board

### Introduction

We have been engaged by the Electricity Supply Board (“ESB” or “the company”) to review the consolidated condensed interim financial statements for the six month period ended 30 June 2013, which comprise the consolidated condensed income statement, the consolidated condensed statement of comprehensive income, the consolidated condensed balance sheet, the consolidated condensed cash flow statement, the consolidated condensed statement of changes in equity and the related notes thereto. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the consolidated condensed interim financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

### Directors’ responsibilities

The consolidated condensed interim financial statements are the responsibility of, and have been approved by, the Board Members.

As disclosed in note 2, the annual consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union (“EU”). The consolidated condensed interim financial statements have been prepared in accordance with IAS 34 “*Interim Financial Reporting*”, as adopted by the EU.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the consolidated condensed interim financial statements, based on our review.

### Scope of our review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”, issued by the Auditing Practices Board for use in Ireland and the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the consolidated condensed interim financial statements for the six month period ended 30 June 2013 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU.

Patricia Carroll 

*For and on behalf of*

KPMG

Chartered Accountants, Statutory Audit Firm

Dublin, Ireland

26 September 2013

# Consolidated Condensed Income Statement

For the six month period ended 30 June 2013

	Notes	Unaudited June 2013 € '000	Unaudited June 2012 € '000
Revenue	4	1,711,764	1,641,201
Other operating income	5	11,967	18,467
Operating costs	6	(1,364,919)	(1,350,512)
Operating profit		358,812	309,156
Net interest on borrowings	7	(104,687)	(86,307)
Financing charges	7	(24,778)	(27,933)
Fair value (losses) / gains on financial instruments	7	(24,537)	14,589
Finance income	7	932	1,147
Net finance cost		(153,070)	(98,504)
Share of joint ventures' profit	12	8,494	7,758
Profit before taxation		214,236	218,410
Income tax (expense) / credit	17	(26,636)	14,413
Profit after taxation		187,600	232,823
<b>Attributable to:</b>			
Equity holders of the Parent		187,465	232,784
Non-controlling interest		135	39
Profit for the financial period		187,600	232,823

Signed:  
Chairman



Signed:  
Chief Executive



Signed:  
Group Finance Director





# Consolidated Condensed Statement of Comprehensive Income

For the six month period ended 30 June 2013

	Unaudited June 2013 € '000	Unaudited June 2012 € '000
<b>Profit for the financial period</b>	<b>187,600</b>	232,823
<b>Items that will never be reclassified subsequently to profit or loss:</b>		
Defined benefit pension scheme actuarial gains / (losses)	11,585	(47,506)
Tax on items that will never be reclassified to profit or loss	(2,665)	11,639
	<b>8,920</b>	(35,867)
<b>Items that are or may be reclassified subsequently to profit or loss:</b>		
Effective hedge of a net investment in foreign subsidiary	1,190	(841)
Translation differences on consolidation of foreign subsidiaries and joint ventures <sup>1</sup>	(27,695)	5,530
Fair value gains / (losses) on cash flow hedges	72,076	58,620
Fair value gains / (losses) on cash flow hedges in joint ventures	(2,669)	(2,687)
Transferred to income statement on cash flow hedges	(31,329)	(25,755)
Tax on items that are or may be reclassified subsequently to profit or loss	(12,678)	(4,493)
Tax on items that are or may be reclassified subsequently to profit or loss for joint ventures	747	691
Tax on items transferred from OCI	3,736	3,166
	<b>3,378</b>	34,231
<b>Other comprehensive income for the financial period, net of tax</b>	<b>12,298</b>	(1,636)
<b>Total comprehensive income for the financial period</b>	<b>199,898</b>	231,187
<b>Attributable to:</b>		
Equity holders of the parent	199,763	231,148
Non controlling interest	135	39
<b>Total comprehensive income for the financial period</b>	<b>199,898</b>	231,187

<sup>1</sup> Included within foreign currency translation differences above are translation losses relating to the retranslation of joint venture investments at the balance sheet date of €4.0 million (period ended 30 June 2012: gains of €2.5 million) (see note 12).

Signed:  
Chairman



Signed:  
Chief Executive



Signed:  
Group Finance Director





# Consolidated Condensed Balance Sheet

As at 30 June 2013

	Notes	Unaudited June 2013 € '000	Audited December 2012 € '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	10,100,305	10,287,736
Intangible assets	10	203,221	287,598
Goodwill	11	177,022	185,938
Investments in joint ventures	12	-	31,436
Financial asset investments	12	55,761	48,849
Derivative financial instruments	20	383,666	353,956
Deferred tax assets		203,056	231,970
<b>Total non-current assets</b>		<b>11,123,031</b>	<b>11,427,483</b>
<b>Current assets</b>			
Inventories	13	128,285	133,016
Derivative financial instruments	20	109,924	84,326
Current tax asset		-	1,380
Trade and other receivables	14	699,361	794,131
Cash and cash equivalents	15	133,571	159,405
Assets held for sale	16	37,876	-
<b>Total current assets</b>		<b>1,109,017</b>	<b>1,172,258</b>
<b>Total assets</b>		<b>12,232,048</b>	<b>12,599,741</b>
<b>EQUITY</b>			
Capital stock		1,979,882	1,979,882
Translation reserve		(33,457)	(6,952)
Cash flow hedging, revaluation and other reserves		239,429	203,397
Retained earnings		1,713,177	1,601,343
<b>Equity attributable to equity holders of the Parent</b>		<b>3,899,031</b>	<b>3,777,670</b>
Non-controlling interest		1,980	1,845
<b>Total equity</b>		<b>3,901,011</b>	<b>3,779,515</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings and other debt	19	3,866,743	4,124,413
Defined benefit pension obligation	21	111,973	132,524
Liability for pension obligation	22	741,234	723,826
Employee related liabilities	22	120,399	146,415
Trade and other payables	23	-	7,813
Deferred income and government grants	24	576,403	592,376
Provisions	25	182,566	184,586
Deferred tax liabilities		851,204	854,068
Derivative financial instruments	20	576,037	597,752
<b>Total non-current liabilities</b>		<b>7,026,559</b>	<b>7,363,773</b>
<b>Current liabilities</b>			
Borrowings and other debt	19	422,991	449,246
Liability for pension obligation	22	57,091	90,941
Employee related liabilities	22	64,531	67,090
Trade and other payables	23	545,710	615,087
Deferred income and government grants	24	41,803	49,707
Provisions	25	49,279	90,731
Current tax liabilities		21,356	22,488
Derivative financial instruments	20	90,793	71,163
Liabilities associated with assets held for sale	16	10,924	-
<b>Total current liabilities</b>		<b>1,304,478</b>	<b>1,456,453</b>
<b>Total liabilities</b>		<b>8,331,037</b>	<b>8,820,226</b>
<b>Total equity and liabilities</b>		<b>12,232,048</b>	<b>12,599,741</b>

Signed:

Chairman



Signed:

Chief Executive



Signed:

Group Finance Director



# Consolidated Condensed Statement of Changes in Equity

As at 30 June 2013

## Unaudited reconciliation of changes in equity

	Capital Stock	Translation Reserve	Cash Flow Hedging and Other Reserves <sup>1</sup>	Retained Earnings	Total	Non Controlling Interest	Total Equity
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
<b>Balance at 1 January 2012</b>	1,979,882	(17,467)	356,306	1,474,234	3,792,955	1,832	3,794,787
<b>Total comprehensive income for the period</b>							
Profit for the financial period	-	-	-	232,784	232,784	39	232,823
Defined benefit scheme actuarial losses	-	-	(47,506)	-	(47,506)	-	(47,506)
Transfers to retained earnings	-	-	(2,771)	2,771	-	-	-
Translation differences net of hedging	-	4,689	-	-	4,689	-	4,689
Cash flow hedges:							
- Net fair value gains	-	-	58,620	-	58,620	-	58,620
- Transfers to income statement							
- Finance cost (interest)	-	-	109	-	109	-	109
- Finance cost (foreign translation movements)	-	-	(27,250)	-	(27,250)	-	(27,250)
- Other operating expenses	-	-	1,386	-	1,386	-	1,386
- Fair value gains for hedges in joint ventures	-	-	(2,687)	-	(2,687)	-	(2,687)
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	7,146	-	7,146	-	7,146
Tax on items transferred to income statement	-	-	3,166	-	3,166	-	3,166
Tax on items taken directly to OCI for joint ventures	-	-	691	-	691	-	691
<b>Total comprehensive income / (loss) for the period</b>	-	4,689	(9,096)	235,555	231,148	39	231,187
<b>Balance at 30 June 2012</b>	1,979,882	(12,778)	347,210	1,709,789	4,024,103	1,871	4,025,974
<b>Balance at 1 January 2013</b>	1,979,882	(6,952)	203,397	1,601,343	3,777,670	1,845	3,779,515
<b>Total comprehensive income for the period</b>							
Profit for the financial period	-	-	-	187,465	187,465	135	187,600
Defined benefit scheme actuarial gains	-	-	11,585	-	11,585	-	11,585
Transfers to retained earnings	-	-	(2,771)	2,771	-	-	-
Translation differences net of hedging	-	(26,505)	-	-	(26,505)	-	(26,505)
Cash flow hedges:							
- Net fair value gains/(losses)	-	-	72,076	-	72,076	-	72,076
- Transfers to income statement							
- Finance cost (interest)	-	-	2,160	-	2,160	-	2,160
- Finance cost (foreign translation movements)	-	-	(6,879)	-	(6,879)	-	(6,879)
- Other operating expenses	-	-	(26,610)	-	(26,610)	-	(26,610)
- Fair value gains for hedges in joint ventures	-	-	(2,669)	-	(2,669)	-	(2,669)
Tax on items taken directly to statement of comprehensive income (OCI)	-	-	(15,343)	-	(15,343)	-	(15,343)
Tax on items transferred to income statement	-	-	3,736	-	3,736	-	3,736
Tax on items taken directly to OCI for joint ventures	-	-	747	-	747	-	747
<b>Total comprehensive income for the period</b>	-	(26,505)	36,032	190,236	199,763	135	199,898
<b>Transactions with owners recognised directly in equity</b>							
Dividends	-	-	-	(78,402)	(78,402)	-	(78,402)
<b>Balance at 30 June 2013</b>	1,979,882	(33,457)	239,429	1,713,177	3,899,031	1,980	3,901,011

<sup>1</sup> The cash flow hedging and other reserves comprises of (i) a €52.5 million revaluation reserve (December 2012: €55.3 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009; (ii) other reserves relating to the NIE defined benefit pension scheme of €(124.2) million (December 2012: €(133.2) million), and (iii) cash flow hedge reserve of €311.1 million (December 2012: €281.3 million)

# Consolidated Condensed Cash Flow Statement

For the six month period ended 30 June 2013

	Notes	Unaudited June 2013 € '000	Unaudited June 2012 € '000
<b><u>Cash flows from operating activities</u></b>			
Profit before taxation		214,236	218,410
<b><u>Adjustments for:</u></b>			
Depreciation and amortisation	6	337,597	345,534
Amortisation of supply contributions	5	(16,657)	(17,486)
Net emissions cashflow		21,525	-
Loss / (profit) on disposal of non-current assets	5	118	(504)
Impact of fair value adjustments in operating profit		6,045	9,911
Net finance cost	7	153,070	98,504
Profits from joint ventures	12	(8,494)	(7,758)
<b>Operating cashflows before changes in working capital and provisions</b>		<b>707,440</b>	<b>646,611</b>
Charge in relation to provisions		2,225	3,624
Charge in relation to employee related liabilities		13,239	6,098
Utilisation of provisions		(6,348)	(7,791)
Utilisation of employee related liabilities		(86,929)	(56,783)
Decrease in trade and other receivables		76,393	43,523
Decrease in inventories		4,731	9,236
Decrease in trade and other payables		(68,245)	(60,246)
<b>Cash generated from operations</b>		<b>642,506</b>	<b>584,272</b>
Current tax refunded		2,389	9,616
Financing costs paid		(124,478)	(116,215)
<b>Net cash inflow from operating activities</b>		<b>520,417</b>	<b>477,673</b>
<b><u>Cash flows from investing activities</u></b>			
Purchase of property, plant and equipment		(253,518)	(250,190)
Purchase of intangible assets		(7,965)	(23,529)
Proceeds from sale of property, plant and equipment and investments		186	1,811
Purchase of financial assets		(11,484)	(12,143)
Dividends received from joint venture undertakings	12	17,805	5,766
Interest received		932	1,147
<b>Net cash outflow from investing activities</b>		<b>(254,044)</b>	<b>(277,138)</b>
<b><u>Cash flows from financing activities</u></b>			
Dividends paid		(78,402)	-
Repayments of term debt facilities and finance leases		(154,406)	(172,106)
Proceeds from the issue of new debt		35,846	128,921
Decrease in other borrowings (net)		(85,532)	(259,724)
Payments on inflation linked interest rate swaps		(6,294)	(4,045)
<b>Net cash outflow from financing activities</b>		<b>(288,788)</b>	<b>(306,954)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(22,415)</b>	<b>(106,419)</b>
<b>Cash and cash equivalents at 1 January</b>	15	<b>159,405</b>	<b>277,409</b>
<b>Effect of exchange rate fluctuations on cash held</b>		<b>(3,419)</b>	<b>3,576</b>
<b>Cash and cash equivalents at 30 June</b>	15	<b>133,571</b>	<b>174,566</b>

# Notes to the Consolidated Condensed Financial Statements

## 1. REPORTING ENTITY

ESB is a company domiciled in the Republic of Ireland. The condensed consolidated interim financial statements of ESB as at and for the six months ended 30 June 2013 comprise the results of the Company and its subsidiaries (together referred to as ESB or 'the Group') and the Group's interests in associates and jointly controlled entities. These results are unaudited but were reviewed by our auditors. The condensed financial information herein does not constitute the statutory financial statements of ESB, which were prepared as at and for the year ended 31 December 2012 and are available on our website [www.esb.ie](http://www.esb.ie). The auditor's report on those financial statements was unqualified.

## 2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 - Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2012.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2012 except as otherwise described below.

The following amendments to existing standards and interpretations were effective for the current period. The amendments to IAS 1, IFRS 13 and IAS 19 have had an immaterial impact on the measurement and disclosure of certain transactions and balances in the Group's interim financial statements:

Accounting standard / interpretation	Effective date
Presentation of items of Other Comprehensive Income (Amendments to IAS 1)	1 July 2012
IFRS 13 Fair Value Measurement	1 January 2013
IAS 19 Employee Benefits (2011)	1 January 2013
Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013
Annual improvements to IFRS's 2009-2011 Cycle (issued May 2012)	1 January 2013

A number of new standards, amendments to standards and interpretations are not yet effective for the period, and have not been applied in preparing the financial statements. We are currently assessing the full impact of these amendments on the Group.

Accounting standard / interpretation	Expected effective date
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities. IASB also issued IAS 27 Separate Financial Statements (2011), which supersedes IAS 27 (2008) and IAS 28 Investments in Associates and Joint Ventures (2011), which supersedes IAS 28 (2008).	1 January 2014
Offsetting Financial Assets and Financial Liabilities (Amendment to IAS 32)	1 January 2014
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	1 January 2014
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	1 January 2014
IFRS 9 Financial Instruments (2009, and subsequent amendments 2010)	1 January 2015

## Notes to the Consolidated Condensed Financial Statements

### 4. SEGMENT REPORTING

#### 2013

##### (i) Segment revenue - 2013

	Electric Ireland € '000	ESB Networks € '000	ESB Generation and Wholesale Markets <sup>1</sup> € '000	NIE <sup>2</sup> € '000	Other segments € '000	Consolidation and eliminations € '000	Total € '000
External revenues	1,042,577	239,624	242,567	128,606	58,390	-	1,711,764
Inter-segment revenue	1,869	221,377	575,350	11,144	92,126	(901,866)	-
<b>Revenue</b>	<b>1,044,446</b>	<b>461,001</b>	<b>817,917</b>	<b>139,750</b>	<b>150,516</b>	<b>(901,866)</b>	<b>1,711,764</b>

All inter-segment revenues are eliminated upon consolidation and are reflected in the eliminations column above.

##### (ii) Segment operating costs - 2013

Depreciation and amortisation	(4,476)	(172,110)	(98,626)	(58,500)	(3,885)	-	(337,597)
Other operating costs	(990,589)	(172,851)	(570,151)	(47,392)	(148,205)	901,866	(1,027,322)

##### (iii) Operating result - 2013

Operating profit	49,381	132,476	149,140	33,858	(6,043)	-	358,812
Net finance cost	(314)	(1,119)	(15,393)	(24,659)	(111,585)	-	(153,070)
Share of joint ventures' profit	-	-	8,809	-	(315)	-	8,494
<b>Profit / (loss) before taxation</b>	<b>49,067</b>	<b>131,357</b>	<b>142,556</b>	<b>9,199</b>	<b>(117,943)</b>	<b>-</b>	<b>214,236</b>

#### 2012

##### (i) Segment revenue - 2012

	Electric Ireland € '000	ESB Networks € '000	ESB Generation and Wholesale Markets <sup>1</sup> € '000	NIE <sup>2</sup> € '000	Other segments € '000	Consolidation and eliminations € '000	Total € '000
External revenues	976,407	234,844	251,534	127,145	51,271	-	1,641,201
Inter-segment revenue	1,940	200,249	560,562	12,626	93,875	(869,252)	-
<b>Revenue</b>	<b>978,347</b>	<b>435,093</b>	<b>812,096</b>	<b>139,771</b>	<b>145,146</b>	<b>(869,252)</b>	<b>1,641,201</b>

All inter-segment revenues are eliminated upon consolidation and are reflected in the eliminations column above.

##### (ii) Segment operating costs - 2012

Depreciation and amortisation	(6,257)	(169,005)	(99,525)	(64,090)	(6,657)	-	(345,534)
Other operating costs	(949,787)	(181,660)	(571,176)	(41,320)	(130,287)	869,252	(1,004,978)

##### (iii) Operating result - 2012

Operating profit	22,303	101,309	142,253	34,361	8,930	-	309,156
Net finance cost	(409)	(837)	(20,214)	(21,952)	(55,092)	-	(98,504)
Share of joint ventures' profit	-	-	7,758	-	-	-	7,758
<b>Profit / (loss) before taxation</b>	<b>21,894</b>	<b>100,472</b>	<b>129,797</b>	<b>12,409</b>	<b>(46,162)</b>	<b>-</b>	<b>218,410</b>

<sup>1</sup> From 1 January 2013, in accordance with a revised structure for reporting to the CODM, ESB Energy International has been renamed as ESB Generation and Wholesale Markets and results now reflect the transfer of the engineering consulting business from ESB Energy International, and aspects of the telecommunications business from ESB Networks, into Other segments. The 2012 segmental results have been restated to reflect this change, which does not impact the 2012 consolidated results of the ESB Group.

<sup>2</sup> NIE segment includes depreciation on fair value uplift recognised on acquisition of NIE.

## Notes to the Consolidated Condensed Financial Statements

5. OTHER OPERATING INCOME	June 2013 € '000	June 2012 € '000
Amortisation of supply contributions	16,657	17,486
(Loss) / profit on disposal of property, plant and equipment and intangible assets	(118)	143
Profit on disposal of investment	-	838
Fair value movements on assets held at fair value through profit and loss (note 12) <sup>1</sup>	(4,572)	-
<b>Total</b>	<b>11,967</b>	<b>18,467</b>

<sup>1</sup> These fair value movements relate to adjustments to the value of investments in renewables enterprises held by Novusmodus

6. OPERATING COSTS	June 2013 € '000	June 2012 € '000
Employee costs (note 8)	217,306	242,952
Fuel costs	410,570	396,687
Other electricity related costs	147,934	148,726
Operations and maintenance <sup>1</sup>	251,512	216,613
Depreciation and amortisation (notes 9 / 10)	337,597	345,534
<b>Total</b>	<b>1,364,919</b>	<b>1,350,512</b>

<sup>1</sup> Operations and maintenance costs in 2012 have been restated to reflect a change in accounting for costs incurred by NIE Limited, on work performed under regulatory licence. These costs totalling €6.3 million were previously disclosed within other electricity related costs in 2012. Income is also recognised in relation to this work, within revenue.

7. NET FINANCE COST AND OTHER FINANCING CHARGES	June 2013 € '000	June 2012 € '000
Interest payable on borrowings	119,188	97,571
Interest payable on finance leases	1,637	2,192
<b>Interest payable</b>	<b>120,825</b>	<b>99,763</b>
Less capitalised interest	(16,138)	(13,456)
<b>Net interest on borrowings</b>	<b>104,687</b>	<b>86,307</b>
<b>Financing charges:</b>		
- on defined benefit pension scheme (note 21)	2,388	438
- on liability for pension obligation (note 22)	18,096	20,219
- on employee related liabilities (note 22)	1,963	1,701
- on power station closure costs (note 25)	1,776	4,395
- on other provisions (note 25)	555	1,180
<b>Total financing charges</b>	<b>24,778</b>	<b>27,933</b>
<b>Fair value (gains) / losses on financial instruments:</b>		
- currency/interest rate swaps: cash flow hedges, transfer from OCI	2,160	109
- interest rate swaps and inflation linked swaps not qualifying for hedge accounting	22,487	(14,121)
- foreign exchange contracts not qualifying for hedge accounting	(110)	(577)
<b>Total fair value losses / (gains) on financial instruments</b>	<b>24,537</b>	<b>(14,589)</b>
<b>Finance cost</b>	<b>154,002</b>	<b>99,651</b>
<b>Finance income</b>	<b>(932)</b>	<b>(1,147)</b>
<b>Net finance cost</b>	<b>153,070</b>	<b>98,504</b>

The financing charges on provisions are calculated in accordance with the policy for discounting of future payment obligations.

Fair value (gains) / losses on interest rate swaps and inflation linked interest rate swaps primarily relate to fair value movements on inflation linked interest rate swaps, which were acquired as part of the purchase of the NIE business in December 2010. These swaps do not qualify for hedge accounting under IAS 39 and accordingly fair value movements following their acquisition are recognised in the income statement. Their fair value is affected by relative movements in interest rates and in market expectations of future retail price index (RPI) movements in the United Kingdom. Movements in 2013 also include the valuation of interest rate swaps contracted in December 2012.

In addition to the amounts transferred from other comprehensive income relating to interest rate swaps and foreign exchange contracts disclosed above, a further €6.8 million (June 2012: €27.3 million) has been transferred from the cash flow hedge reserve to net finance cost and other financing charges during the period. However, these amounts are fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates

## Notes to the Consolidated Condensed Financial Statements

### 8. EMPLOYEES

(a) Employee costs in the period	June 2013 € '000	June 2012 € '000
<b>Current staff costs (excluding pension)</b>		
Salaries	221,256	250,501
Overtime	10,860	9,463
Social welfare costs (PRSI)	16,279	16,939
Other payroll benefits <sup>1</sup>	13,740	14,379
Capitalised payroll	<u>(71,234)</u>	<u>(74,122)</u>
<b>Net payroll cost for employees</b>	<b><u>190,901</u></b>	<b><u>217,160</u></b>
<b>(b) Pension and other employee benefit costs</b>		
NIE defined benefit charge <sup>2</sup>	4,794	4,454
Defined contribution pension charge <sup>3</sup>	<u>21,611</u>	<u>21,338</u>
	<b>26,405</b>	<b>25,792</b>
<b>Total employee related costs charged to the income statement</b>	<b><u>217,306</u></b>	<b><u>242,952</u></b>

<sup>1</sup> These benefits primarily include travel and subsistence expenses and accruals for holiday leave balances remaining at the period end.

<sup>2</sup> The defined benefit charge relates solely to the 'Focus' section of the Northern Ireland Electricity Pension Scheme ('the NIE Scheme') which is accounted for as a defined benefit scheme.

<sup>3</sup> The defined contribution charge includes contributions to the ESB Defined Contribution Pension Scheme, the ESB General Employees' Superannuation Scheme and the 'Options' section of the NIE Scheme.



## Notes to the Consolidated Condensed Financial Statements

### 9. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings € '000	Plant and machinery € '000	Total assets in commission € '000	Assets under construction € '000	Total € '000
<b>Cost</b>					
<b>Balance at 1 January 2012</b>	1,089,980	14,206,970	15,296,950	829,137	16,126,087
Additions	1,025	84,136	85,161	165,470	250,631
Retirements / disposals	(10)	(5,950)	(5,960)	-	(5,960)
Transfers out of assets under construction	18,610	169,194	187,804	(187,804)	-
Transfers to intangible assets	-	(23)	(23)	-	(23)
Translation differences	5,861	122,998	128,859	5,625	134,484
<b>Balance at 30 June 2012</b>	1,115,466	14,577,325	15,692,791	812,428	16,505,219
<b>Balance at 1 January 2013</b>	1,132,073	14,846,030	15,978,103	938,759	16,916,862
Additions	415	67,669	68,084	208,252	276,336
Retirements / disposals	(162)	(4,524)	(4,686)	-	(4,686)
Transfer to assets held for sale	-	(2,965)	(2,965)	-	(2,965)
Transfers out of assets under construction	9,930	169,692	179,622	(179,622)	-
Transfers to intangible assets	-	(1,554)	(1,554)	-	(1,554)
Translation differences	(413)	(182,105)	(182,518)	(15,398)	(197,916)
<b>Balance at 30 June 2013</b>	1,141,843	14,892,243	16,034,086	951,991	16,986,077
<b>Depreciation</b>					
<b>Balance at 1 January 2012</b>	593,525	5,370,236	5,963,761	-	5,963,761
Charge for the year	9,706	309,145	318,851	-	318,851
Retirements / disposals	(10)	(5,441)	(5,451)	-	(5,451)
Translation differences	66	37,922	37,988	-	37,988
<b>Balance at 30 June 2012</b>	603,287	5,711,862	6,315,149	-	6,315,149
<b>Balance at 1 January 2013</b>	615,954	6,013,172	6,629,126	-	6,629,126
Charge for the year	10,595	311,627	322,222	-	322,222
Retirements / disposals	(156)	(4,226)	(4,382)	-	(4,382)
Transfer to assets held for sale	-	(1,229)	(1,229)	-	(1,229)
Translation differences	(85)	(59,880)	(59,965)	-	(59,965)
<b>Balance at 30 June 2013</b>	626,308	6,259,464	6,885,772	-	6,885,772
<b>Net book value at 30 June 2013</b>	<b>515,535</b>	<b>8,632,779</b>	<b>9,148,314</b>	<b>951,991</b>	<b>10,100,305</b>
<b>Net book value at 31 December 2012</b>	516,119	8,832,858	9,348,977	938,759	10,287,736
<b>Net book value at 30 June 2012</b>	512,179	8,865,463	9,377,642	812,428	10,190,070
<b>Net book value at 1 January 2012</b>	496,455	8,836,734	9,333,189	829,137	10,162,326

During the period the group capitalised interest of €16.1 million (June 2012: €13.5 million) in assets under construction, using an effective interest rate of 5.25% (June 2012: 5.25%).

The carrying value of non-depreciable assets at 30 June 2013 is €72.3 million (December 2012: €75.4 million).

Property, plant and equipment with a net book value of €nil at 30 June 2013 is included above at a cost of €2,563.9 million (December 2012: €2,494.3 million).

Retirements / disposals in both 2013 and 2012 primarily relate to the retirement of assets that have been fully depreciated.

#### Finance leases

All finance leases are held by the Parent. The net book value of property, plant and equipment includes an amount of €15.0 million (December 2012: €20.0 million) in respect of plant and machinery held under finance leases. Depreciation charged on such assets during the period amounted to €5.0 million (June 2012: €5.0 million).

## Notes to the Consolidated Condensed Financial Statements

### 10. INTANGIBLE ASSETS

	Software and other intangible assets € '000	Emissions Allowances € '000	Software under development € '000	Total € '000
<b>Cost</b>				
<b>Balance at 1 January 2012</b>	479,666	168,680	34,487	682,833
Software additions	1,688	-	21,034	22,722
Allocation of emissions allowances	-	68,554	-	68,554
Purchase of emissions	-	807	-	807
Settlement of emission allowances	-	(127,475)	-	(127,475)
Transfers out of software under development	47,183	-	(47,183)	-
Transfers from property, plant and equipment	23	-	-	23
Translation differences	4,308	731	1,320	6,359
<b>Balance at 30 June 2012</b>	532,868	111,297	9,658	653,823
<b>Balance at 1 January 2013</b>	541,855	110,340	7,953	660,148
Software additions	2,566	-	5,399	7,965
Purchase of emissions	-	7,082	-	7,082
Software disposals	(928)	-	-	(928)
Settlement of emission allowances	-	(80,517)	-	(80,517)
Transfers out of software under development	1,471	-	(1,471)	-
Transfers from property, plant and equipment	1,554	-	-	1,554
Translation differences	(8,064)	(597)	(102)	(8,763)
Transfer to assets held for sale	(271)	-	-	(271)
<b>Balance at 30 June 2013</b>	538,183	36,308	11,779	586,270
<b>Amortisation</b>				
<b>Balance at 1 January 2012</b>	310,855	-	-	310,855
Charge for the year	26,683	-	-	26,683
Retirements / disposals	-	-	-	-
Translation differences	2,133	-	-	2,133
<b>Balance at 30 June 2012</b>	339,671	-	-	339,671
<b>Balance at 1 January 2013</b>	372,550	-	-	372,550
Charge for the year	15,375	-	-	15,375
Retirements / disposals	(927)	-	-	(927)
Translation differences	(3,949)	-	-	(3,949)
<b>Balance at 30 June 2013</b>	383,049	-	-	383,049
<b>Net book value at 30 June 2013</b>	<b>155,134</b>	<b>36,308</b>	<b>11,779</b>	<b>203,221</b>
<b>Net book value at 31 December 2012</b>	169,305	110,340	7,953	287,598
<b>Net book value at 30 June 2012</b>	193,197	111,297	9,658	314,152
<b>Net book value at 1 January 2012</b>	168,811	168,680	34,487	371,978

Software costs include both internally developed and externally purchased assets. The majority of these costs however are represented by internally developed assets.

Emissions allowances are not amortised as they are held for settlement in the following year. A portion of the emissions allowances included above were received by way of government grant and are also included in deferred income, as shown in note 24. From 1 January 2013, all new emissions allowances must be purchased.

Other intangible assets include grid connections and other wind farm development assets.

Amortisation of intangible assets is charged to the income statement as part of operating costs.

## Notes to the Consolidated Condensed Financial Statements

### 11. GOODWILL

	€ '000
<b>Balance at 1 January 2012</b>	181,664
Translation differences	<u>6,418</u>
<b>Balance at 30 June 2012</b>	<u>188,082</u>
<b>Balance at 1 January 2013</b>	185,938
Translation differences	<u>(8,916)</u>
<b>Balance at 30 June 2013</b>	<u>177,022</u>

Goodwill was recognised on the acquisition of NIE in December 2010, and relates to the fair value of the expected return on future investment in the Regulated Asset Base (RAB) of the NIE business. Goodwill is reviewed annually in December for impairment, by assessing the recoverable amount of the investment, based on its value in use.

The annual impairment test of Goodwill was carried out at December 2012 in accordance with IAS 36. No reduction in the value of goodwill was deemed to be required, subsequent to the impairment test noted. During the period to 30 June 2013, there were no additional indicators of impairment.

The Utility Regulator in Northern Ireland (NIAUR) announced in October 2011 that the next price control programme (RP5) applicable to NIE would take effect from 1 October 2012 rather than 1 April 2012. NIAUR published its final determination for RP5 in October 2012. In November 2012 NIE advised the regulator that regrettably it was unable to accept the proposed terms for the RP5 price control. On 30 April 2013 the matter was referred to the UK Competition Commission. A final outcome is not expected until later in 2013.



## Notes to the Consolidated Condensed Financial Statements

### 12. FINANCIAL ASSET INVESTMENTS

	Joint venture investments € '000	Financial assets at fair value through profit or loss € '000	Total € '000
<b>Balance at 1 January 2012</b>	28,678	40,826	69,504
Additions	25	12,118	12,143
Disposals	-	(798)	(798)
Share of profit	7,758	-	7,758
Fair value movement on cash flow hedges	(1,996)	-	(1,996)
Dividends received	(5,766)	-	(5,766)
Translation differences	2,507	(62)	2,445
<b>Balance at 30 June 2012</b>	<b>31,206</b>	<b>52,084</b>	<b>83,290</b>
<b>Balance at 1 January 2013</b>	31,436	48,849	80,285
Additions	-	11,484	11,484
Share of profit	8,494	-	8,494
Fair value movement on cash flow hedges	(1,922)	-	(1,922)
Fair value movement - transfer to income statement	-	(4,572)	(4,572)
Dividends received	(17,805)	-	(17,805)
Translation differences	(3,972)	-	(3,972)
Transfer to assets held for sale (note 16)	(17,492)	-	(17,492)
Transfer to other payables	1,261	-	1,261
<b>Balance at 30 June 2013</b>	<b>-</b>	<b>55,761</b>	<b>55,761</b>

#### Interests in joint ventures

The following companies have been included in the ESB Group accounts as joint ventures using equity accounting:

Name of the company	Country	Holding 30 June 2013 % of share capital owned	Holding 31 December 2012 % of share capital owned
Bizkaia Energia SL	Spain	50% <sup>1</sup>	50%
Marchwood Power Limited	United Kingdom	50% <sup>1</sup>	50%
Oweninny Power Limited	Republic of Ireland	50%	50%
Emerald Bridge Fibres Limited	Republic of Ireland	50%	50%

<sup>1</sup> At 30 June 2013, the investments in Bizkaia Energia SL and Marchwood Power Limited meet the criteria for assets held for sale as outlined in IFRS 5 and have been reclassified at the balance sheet date.

### 13. INVENTORIES

	June 2013 € '000	December 2012 € '000
Materials	44,915	55,687
Fuel	83,370	77,329
	<b>128,285</b>	<b>133,016</b>

Inventories consumed during the six month period ended 30 June 2013 totalled €95.5 million (six months ended 30 June 2012: €91.1 million). There were no inventory impairments recognised during the period (year ended 31 December 2012: €nil).

## Notes to the Consolidated Condensed Financial Statements

### 14. TRADE AND OTHER RECEIVABLES

	June 2013 € '000	December 2012 € '000
Retail electricity receivables - billed	126,692	91,352
Retail electricity receivables - unbilled	142,455	192,398
Total retail electricity receivables	269,147	283,750
SEM pool related receivables	45,204	99,093
Use of System receivables (including unbilled)	154,145	167,798
Other electricity receivables	88,084	78,140
Total electricity receivables	556,580	628,781
Trade receivables - non-electricity	42,229	45,149
Amounts due from joint venture undertakings	-	8,265
Other receivables	65,095	63,582
Prepayments	35,457	48,354
<b>Total</b>	<b>699,361</b>	<b>794,131</b>

#### *Wholesale and retail credit risk*

Trade, other receivables and unbilled consumption can be divided into final retail electricity customers (billed and unbilled), SEM pool related receivables, use of system receivables, and other (non-electricity) receivables. Risks relating to these receivables have not changed significantly from those disclosed in the most recent annual report.

### 15. CASH AND CASH EQUIVALENTS

	June 2013 € '000	December 2012 € '000
Cash at bank and in hand	133,571	159,405

### 16. ASSETS AND LIABILITIES HELD FOR SALE

	June 2013 € '000	December 2012 € '000
Investments in joint ventures	17,492	-
Other non-current assets	2,007	-
Current assets	18,377	-
<b>Total assets for sale</b>	<b>37,876</b>	<b>-</b>
<b>Total liabilities associated with assets for sale</b>	<b>(10,924)</b>	<b>-</b>
<b>Total assets held for sale - net</b>	<b>26,952</b>	<b>-</b>

Further to the Irish Government's proposal in February 2012 that ESB would dispose of some non-strategic generation capacity, on 27 February 2013 ESB announced its intention to sell its 50% shareholding in each of its international tolling plants, namely Marchwood Power Limited in the UK and Bizkaia Energia SL in Spain.

At 30 June 2013, the investments in these joint ventures meet the criteria for assets held for sale as outlined in IFRS 5 and have been reclassified at the balance sheet date.

The remaining assets and liabilities held for sale relate to the Group's investment in Powerteam Electrical Services (UK) Limited, which is also held for sale at 30 June 2013.

The assets and liabilities held for sale are reclassified at their carrying values, which are lower than their estimated fair values less costs to sell.

## Notes to the Consolidated Condensed Financial Statements

### 17. TAXATION

Income tax expense / (credit)	June 2013 € '000	June 2012 € '000
<b>Current tax expense / (credit)</b>		
Current tax	16,218	12,622
Prior year over provision <sup>1</sup>	(16,807)	(1,340)
	<u>(589)</u>	<u>11,282</u>
<b>Deferred tax expense / (credit)</b>		
Origination and reversal of temporary differences	8,616	18,009
Deferred tax not previously recognised	-	(28,800)
Effect of decrease in UK tax rate on opening deferred tax liability <sup>2</sup>	-	(14,628)
Prior year under / (over) provision <sup>1</sup>	18,609	(276)
	<u>27,225</u>	<u>(25,695)</u>
<b>Total</b>	<u>26,636</u>	<u>(14,413)</u>

<sup>1</sup> The prior year over and under provision relates mainly to a change in tax treatment adopted by NIE in relation to inflation linked interest rate swaps. The proposed tax treatment for these contracts has been clarified with HMRC during the period, and the revised classification reflects the expected treatment.

<sup>2</sup> Reductions in the UK corporation tax rate in 2012 were substantively enacted on 26 March 2012 (to 24%, effective from 1 April 2012) and 3 July 2012 (to 23%, effective from 1 April 2013). The Group's UK deferred tax liability at 30 June 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date (June 2012: 24%).

<sup>3</sup> Further changes in the main rate of corporation tax for UK companies were substantively enacted for financial reporting purposes on 2 July 2013. The main changes in corporation tax rates that will have a material impact on the carrying value of the Group's deferred tax assets and liabilities are as follows:

- Reduction from 23% to 21%, effective 1 April 2014; and
- Reduction from 21% to 20%, effective 1 April 2015.

These changes in the carrying value of the Group's UK deferred tax assets and liabilities will be reflected in the financial statements for the year ended 31 December 2013, and are expected to result in a deferred tax benefit in the Group results.

### 18. NON-CONTROLLING INTEREST

Non-controlling interests at 31 December 2012 and 30 June 2013 relates to the minority shareholdings in Crockahenny Wind Farm Limited, Mountain Lodge Power Limited and Airvolution Energy Limited.

## Notes to the Consolidated Condensed Financial Statements

### 19. BORROWINGS AND OTHER DEBT

(a) Borrowings	Finance	Recourse	Non-recourse	June 2013	December 2012
	leases	borrowings	borrowings	Total	Total
	€ '000	€ '000	€ '000	€ '000	€ '000
<b>Current borrowings</b>					
- Repayable by instalments	52,077	69,270	7,716	129,063	120,760
- Repayable other than by instalments	-	293,928	-	293,928	328,486
<b>Total current borrowings</b>	<b>52,077</b>	<b>363,198</b>	<b>7,716</b>	<b>422,991</b>	<b>449,246</b>
<b>Non-current borrowings</b>					
- Repayable by instalments					
Between one and two years	-	89,990	1,804	91,794	80,611
Between two and five years	-	256,513	16,411	272,924	282,202
After five years	-	448,428	102,772	551,200	577,390
	-	794,931	120,987	915,918	940,203
- Repayable other than by instalments					
Between one and two years	-	-	-	-	168,373
Between two and five years	-	873,764	-	873,764	885,306
After five years	-	1,389,669	687,392	2,077,061	2,130,531
	-	2,263,433	687,392	2,950,825	3,184,210
<b>Total non-current borrowings</b>	<b>-</b>	<b>3,058,364</b>	<b>808,379</b>	<b>3,866,743</b>	<b>4,124,413</b>
<b>Total borrowings outstanding</b>	<b>52,077</b>	<b>3,421,562</b>	<b>816,095</b>	<b>4,289,734</b>	<b>4,573,659</b>

See section (c) for details of applicable interest rates.

Current borrowings by facility		June 2013	December 2012
		€ '000	€ '000
	Ref		
Emissions allowances financing arrangement	1	-	60,515
ESB stock		10,304	10,304
Long-term bank borrowings	6	69,270	62,583
Private placement borrowings	5	283,624	257,667
Non-recourse long-term project finance debt	3	7,716	2,449
Capital element of finance leases	7	52,077	55,728
		<b>422,991</b>	<b>449,246</b>

Non-current borrowings by facility		June 2013	December 2012
		€ '000	€ '000
	Ref		
Fuel financing arrangement	4	29,727	29,664
Non-recourse long-term project finance debt	3	120,987	118,873
ESB Eurobonds	2	1,412,437	1,427,884
NIE Eurobonds		687,392	723,797
Long-term bank borrowings	6	782,030	954,771
Private placement borrowings	5	834,170	869,424
		<b>3,866,743</b>	<b>4,124,413</b>

With the exception of borrowings relating to finance leases and the non-recourse project finance debt, which is secured against specific assets, none of the borrowings are secured against the Group assets.

At 30 June 2013, ESB was rated BBB+ from Standard & Poor's and Fitch and Baa3 from Moody's respectively. The outlook on the ratings of Standard & Poor's and Fitch is stable. Moody's retain a negative outlook, largely associated with their credit rating of the Irish sovereign.

Some information on the Group's borrowings facilities is included below. More detailed disclosure is included in the 2012 Annual Report.

#### 1 Emissions allowances financing arrangement

In April 2012 the Group received €59.0 million from the sale of emissions allowances, and at the same date contracted to buy them back in February 2013 at a fixed price. This transaction had the effect of a financing arrangement, and was disclosed in current borrowings at December 2012.



## Notes to the Consolidated Condensed Financial Statements

### 19. BORROWINGS AND OTHER DEBT (continued)

#### (a) Borrowings (continued)

##### 2 ESB Eurobonds

In March 2010, ESB issued a Stg£275.0 million 10 year Eurobond with a fixed coupon of 6.5%.

In September 2012, ESB Finance Limited issued a €600.0 million 5 year Eurobond with a fixed coupon of 6.25%.

In November 2012, ESB Finance Limited issued a €500.0 million 7 year Eurobond with a fixed coupon of 4.375%.

##### 3 Non-recourse long-term project finance debt

In September 2012 Carrington Power Limited (CPL), a wholly owned subsidiary of ESB, completed the financial close of an 881MW Combined Cycle Gas Turbine power (CCGT) plant in Carrington, near Manchester. Finance was structured on a 70/30 debt/equity basis, with non-recourse project finance funding facilities of Stg£523.0 million being provided by a syndicate of banks, which incorporates export credit support from the Swiss Export Credit Agency, SERV. Borrowings of Stg£108.4 million debt were drawn at the 30 June 2013 (December 2012: £100.3 million). The plant is scheduled to be commissioned by 2016.

##### 4 Fuel financing arrangement

In December 2012 the Group received €30.0 million from the sale of fuel inventories, and at the same date contracted to buy them back in December 2015 at a fixed price. This transaction has the effect of a financing arrangement, and is disclosed in non-current borrowings on the previous page.

##### 5 Private placement borrowings

The private placement debt and certain other facilities have conditions which require ESB to maintain certain interest cover and asset covenants. To date ESB has been fully in compliance with all the covenant requirements associated with the private placement debt and other facilities.

##### 6 Long-term bank borrowings

On 12 February 2013, the Group signed a new €1.4 billion credit facility with a syndicate of 13 banks, enabling the Group to draw down bank finance as required up to February 2018. This replaced the revolving credit facility in place at 31 December 2012. No borrowings were drawn under this facility at the balance sheet date.

##### 7 Finance leases

Future finance lease commitments for the Group are as follows:

	June 2013 Minimum lease payments € '000	June 2013 Present value of minimum lease payments € '000	December 2012 Minimum lease payments € '000	December 2012 Present value of minimum lease payments € '000
<b>Amounts payable:</b>				
Within one year	53,670	52,077	59,025	55,728
Between one and five years	-	-	-	-
	<u>53,670</u>	<u>52,077</u>	<u>59,025</u>	<u>55,728</u>
Less future lease charges	-	-	(3,297)	-
Present value of lease obligations	<u>53,670</u>		<u>55,728</u>	

##### Hedge of net investment in foreign operations

Included in borrowings above are sterling denominated bank loans, which have been designated as a hedge of the Group's investment in a sterling denominated subsidiary in the United Kingdom, as outlined below.

	June 2013 € '000	June 2012 € '000
<b>Sterling denominated loans designated as a hedge of Group's investment in subsidiary</b>		
Value at 1 January	93,456	102,765
Repayments in period	(5,565)	(5,711)
(Gain) / loss on translation to Euro (OCI)	(4,481)	3,430
Value at 30 June	<u>83,410</u>	<u>100,484</u>
(Loss) / gain on translation of net investment in subsidiary (OCI)	<u>(3,291)</u>	<u>2,588</u>

## Notes to the Consolidated Condensed Financial Statements

### 19. BORROWINGS AND OTHER DEBT (continued)

#### (b) Funding and liquidity management

The principal liquidity risks faced by the Group relate to cash flow requirements arising from day-to-day operations, maturing debt obligations and the funding of capital investment programmes. The Group's treasury function manages this risk through a combination of liquid investments, cash and cash equivalents and undrawn committed bank facilities. The Group negotiates facilities with relationship banks and debt capital markets to pre-fund any requirements arising from maturing debt and capital expenditure.

At 30 June 2013 the Group had over €1,671.7 million immediately available in cash or cash equivalents and committed bank facilities, ensuring liquidity demands can be met as required. The committed bank facilities include a syndicated loan facility with a large number of well-rated financial institutions as well as facilities with the EIB. Included in the amount disclosed are facilities totalling €140.0 million which may only be drawn against certain scheduled capital expenditure.

The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account the compatibility between funding costs and risk mitigation. All borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements.

The maturity profile of the carrying amount of the Group's borrowings, and the expiry of material undrawn committed bank borrowing facilities are as follows:

Maturing	30 June 2013		31 December 2012	
	Drawn Debt € '000	Undrawn Facility € '000	Drawn Debt € '000	Undrawn Facility € '000
In one year or less	422,991	-	449,246	-
Between one and two years	91,794	-	248,984	645,770
Between two and five years	1,146,688	1,397,900	1,167,508	750,000
In more than five years	2,628,261	219,484	2,707,921	237,984
	<b>4,289,734</b>	<b>1,617,384</b>	<b>4,573,659</b>	<b>1,633,754</b>

#### (c) Interest rate risk management

The Group's current interest rate policy is to have a minimum of 50% of the debt portfolio at fixed (or inflation linked) rates of interest, with a target of 75% at fixed (or inflation linked) rates of interest. This is achieved either by borrowing directly at fixed interest rates or via interest rate swaps. At 30 June 2013, 95% of the Group's debt was fixed to maturity or inflation linked (December 2012: 93%). The fair value of interest rate swaps is disclosed in Note 20.

In respect of interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date taking into account the effect of interest rate swaps and cross currency swaps:

	Effective interest %	Total € '000	Within 1 year € '000	1-2 years € '000	2-5 years € '000	More than 5 years € '000
Finance leases (fixed interest rate)	6.1%	52,077	52,077	-	-	-
Private placement borrowings (fixed interest rate)	5.8%	1,117,794	283,624	-	257,440	576,730
Non-recourse borrowings (fixed interest rate)	6.3%	816,095	7,716	1,804	16,411	790,164
Other long term borrowings (fixed and variable interest rate)	4.4%	2,303,768	79,574	89,990	872,837	1,261,367

Included within other long term borrowings above are floating rate liabilities of €350.2 million (2012: €318.3 million).

The effective interest rate on the private placement borrowings has been fixed through the use of cross currency swaps and interest rate swaps. The effective rate of non-recourse sterling borrowings of Stg£131.9 million has been fixed using interest rate swaps. In the absence of these interest rate swaps, the floating rate on the underlying sterling and euro borrowings at 30 June 2013 would be 3.3%, in line with prevailing interest rates in those monetary areas on borrowings of a similar duration. Inflation linked swaps are included at equivalent nominal interest rate levels.

## Notes to the Consolidated Condensed Financial Statements

### 20. DERIVATIVE FINANCIAL INSTRUMENTS

#### Fair value by class of derivative financial instrument

The fair values of financial instruments, grouped by class of instrument, are as follows:

	June 2013				
	Non-current assets	Current Assets	Non-current liabilities	Current liabilities	Total
	€ '000	€ '000	€ '000	€ '000	€ '000
Interest rate swaps	8,895	-	(19,263)	-	(10,368)
Inflation linked interest rate swaps	-	-	(465,363)	(13,254)	(478,617)
Currency swaps	-	-	(83,028)	(24,621)	(107,649)
Foreign exchange contracts	7,344	10,398	(1,990)	(7,128)	8,624
Forward fuel price contracts	196,775	65,972	(6,393)	(45,790)	210,564
Forward electricity price contracts	170,652	33,554	-	-	204,206
	<b>383,666</b>	<b>109,924</b>	<b>(576,037)</b>	<b>(90,793)</b>	<b>(173,240)</b>

  

	December 2012				
	Non-current assets	Current Assets	Non-current liabilities	Current liabilities	Total
	€ '000	€ '000	€ '000	€ '000	€ '000
Interest rate swaps	-	-	(20,642)	-	(20,642)
Inflation linked interest rate swaps	-	-	(487,425)	(13,668)	(501,093)
Currency swaps	-	-	(81,578)	(27,225)	(108,803)
Foreign exchange contracts	3,546	5,326	(2,943)	(2,083)	3,846
Forward fuel price contracts	217,167	52,051	(5,164)	(28,187)	235,867
Forward electricity price contracts	133,243	26,949	-	-	160,192
	<b>353,956</b>	<b>84,326</b>	<b>(597,752)</b>	<b>(71,163)</b>	<b>(230,633)</b>

Derivative financial instruments are carried at fair value. The fair value of a financial instrument is the amount it could be exchanged for in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. The method used to calculate the fair value of the Group's financial instruments is discounted cash flow analysis using a zero coupon discount rate in line with swap market convention. This method enables the Group to discount the cash flows at a rate equal to the prevailing market rate of interest taking into account maturity and credit margin.

With the exception of inflation linked interest rate swaps, the great majority of the derivative balances shown in the tables on the previous page are designated as cash flow hedges of interest rate, currency or commodity risk arising from highly probable forecast interest, revenue, or other operating cost cash flows.

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

The interest rate used to discount future estimated cash flows was 1.65% (year ended 31 December 2012: 1.1%). The rate is based on the EURIBOR yield curve at the reporting date.

#### (i) Interest rate swaps

For interest rate swaps, the fair value takes into account the fixed, floating and market rates prevailing at the year end. As interest rate swaps are marked to market at the year end, their carrying value is equal to their fair value.

Total fair value gains of €10.3 million were recognised during the the six month period to 30 June 2013 (June 2012: losses of €4.1 million) in relation to interest rate swaps, of which a loss of €13.0 million was recognised directly in finance costs in the income statement, with a gain of €23.3 million recognised in OCI (June 2012: losses of €4.1 million all recognised in finance costs).

Interest rate swaps of Stg£420.0 million were executed during 2012, which fixed the interest rate on project finance secured by Carrington Power Limited (CPL). These form part of an effective hedging relationship.

Further interest rate swaps of Stg£365.0 million were executed during 2012 in relation to fixed rate borrowings held by the Parent and ESB Finance Limited, as part of the Group's hedging strategy. Hedge accounting was not applied to these derivatives.

## Notes to the Consolidated Condensed Financial Statements

### 20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

#### Fair value by class of derivative financial instrument (continued)

##### (ii) Inflation linked interest rate swaps

Inflation linked interest rate swaps with a fair value on acquisition of €272.5 million were acquired in December 2010 as part of the purchase of the NIE business. During the six month period to 30 June 2013, negative fair value movements on these swaps of €9.2 million (June 2012: positive fair value movements of €18.3 million) were recognised within finance costs in the income statement, as hedge accounting was not

The inflation linked interest rate swaps did not qualify for hedge accounting under IAS 39 on acquisition of the NIE business. Their fair value is affected by relative movements in interest rates and in market expectations of future retail price index (RPI) movements in the United Kingdom.

##### (iii) Currency swaps

The fair value of currency swaps is affected by movements in foreign exchange and interest rates. ESB's currency swaps are primarily classified as cash flow hedges and relate mainly to the cross currency swaps entered into in connection with the private placement debt, which is described in note 19. These cross currency swaps were entered into in order to swap US dollar and sterling interest and principal repayments on the underlying debt to euro, thereby hedging the risk on these payments over the periods to maturity from 2010 to 2023. Included in the income statement for the six month period to 30 June 2013 is of a gain of €6.8 million (June 2012: €27.2 million) arising on cross currency swaps which is fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates (see note 7).

In addition to foreign currency forward contracts entered into in relation to the Group's borrowings, the Group has entered into foreign currency contracts in relation to pool purchases, fuel purchase requirements (which are in US dollar and pounds sterling) and in relation to power station projects (including Carrington Power Limited). These contracts have maturities extending until 2022. Total positive fair value movements of €4.7 million were recognised in the six month period to 30 June 2013 (June 2012: negative movements of €2.7 million) in relation to such foreign exchange contracts, of which a positive fair value movement of €7.1 million (June 2012: negative movements of €4.5 million) was recognised through other comprehensive income and a negative fair value movement of €2.4 million (June 2012: positive movement of €1.8 million) was recognised in the income statement.

### 21. PENSION LIABILITY

Northern Ireland Electricity Pension Scheme	June 2013 € '000	June 2012 € '000
<b>Net deficit at 1 January</b>	<b>(132,524)</b>	<b>(91,216)</b>
Movements during the period:		
Actuarial gains / (losses) recognised in OCI during the period	11,585	(47,506)
Charge to the income statement	(5,509)	(4,454)
Pension contributions paid	14,157	13,528
Net pension scheme interest	(2,388)	(438)
Translation differences	6,176	(4,133)
Transfer to assets held for sale (note 16)	(3,470)	-
<b>Net deficit at 30 June</b>	<b>(111,973)</b>	<b>(134,219)</b>

#### Pension liability

The majority of the employees of Northern Ireland Electricity Limited and subsidiaries ('NIE') are members of the Northern Ireland Electricity Pension Scheme ('the NIE Scheme'). This has two sections: 'Options', which is a money purchase arrangement whereby the employer generally matches the members' contributions up to a maximum of 6% of salary, and 'Focus' which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the NIE Scheme are held under trust and invested by the trustees on the advice of professional investment managers.

The actuarial gain for the period arises due to a higher return on scheme assets and an increase in the discount rate used to value the scheme liabilities to 4.5% at 30 June 2013, from 4.3% at 31 December 2012. This is offset in part by an increase in the inflation rate assumption used to value scheme liabilities to 2.2% at 30 June 2013, from 1.8% at 31 December 2012.

In June 2011, the IASB published an amended version of IAS 19 Employee Benefits which is required for annual periods beginning on or after 1 January 2013. As a result of this change, the Group determines the net interest expense by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

The change in accounting policy has been applied for the period ended 30 June 2013. It increased the defined benefit liability expense recognised in profit or loss and correspondingly increased the defined benefit plan re-measurement gain recognised in other comprehensive income by €3.3 million for the period ended 30 June 2013.

If applied in 2012, this amendment would have reduced the actuarial loss recognised for the year by €1.1 million, with a corresponding increase in expenses in profit or loss. The amendments to the standard require retrospective application, with the restatement of disclosures in the comparative period. The Group has determined that the adjustments required are not material to the values as previously disclosed and therefore no restatement has been made.

The change in accounting policy had no impact on net assets as at 30 June 2013 or 31 December 2012.

## Notes to the Consolidated Condensed Financial Statements

### 22. LIABILITY FOR PENSION OBLIGATION AND EMPLOYEE RELATED LIABILITIES

	Liability for pension obligation € '000	Employee related liabilities		
		Restructuring liabilities € '000	Other € '000	Total € '000
<b>Balance at 1 January 2012</b>	834,742	85,979	55,739	141,718
Movements during the period:				
Charge to the income statement	-	(68)	3,415	3,347
Utilised during the period	(10,541)	(9,801)	(22,913)	(32,714)
Financing charge	20,219	1,701	-	1,701
Translation differences	-	10	399	409
<b>Balance at 30 June 2012</b>	<b>844,420</b>	<b>77,821</b>	<b>36,640</b>	<b>114,461</b>
<b>Balance at 1 January 2013</b>	814,767	182,704	30,801	213,505
Movements during the period:				
Charge to the income statement	-	-	7,730	7,730
Utilised during the period	(34,538)	(24,759)	(13,475)	(38,234)
Financing charge	18,096	1,963	-	1,963
Translation differences	-	(11)	(23)	(34)
<b>Balance at 30 June 2013</b>	<b>798,325</b>	<b>159,897</b>	<b>25,033</b>	<b>184,930</b>
<b>Analysed as follows:</b>				
Non-current liabilities	741,234	120,399	-	120,399
Current liabilities	57,091	39,498	25,033	64,531
<b>Total</b>	<b>798,325</b>	<b>159,897</b>	<b>25,033</b>	<b>184,930</b>

#### Liability for pension obligation

During 2010 the company reached agreement with the ESB Group of Unions to amend pension arrangements within the company and this is explained in note 21 to the Financial Statements in the ESB Annual Report 2010. This agreement confirmed certain company obligations which require separate provision.

#### Restructuring liabilities

This provision represents the estimated cost of providing post employment payments to former employees, other than those amounts covered by the pension scheme. It includes liabilities for continuing payments to employees who left under past voluntary severance initiatives, as well as liabilities in respect of former employees which may arise as part of other potential legal or constructive post retirement obligations. These liabilities are expected to be materially discharged by 2027. Expected future cashflows are discounted to present value using long term interest rates based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread.

#### Other

In accordance with the requirements of IAS 19 Employee Benefits, provision has been made for employee remuneration liabilities, including accrued holiday leave, bonuses and profit share arrangements.

## Notes to the Consolidated Condensed Financial Statements

### 23. TRADE AND OTHER PAYABLES

Current payables:	June 2013 € '000	December 2012 € '000
Progress payments on work in progress	40,578	34,917
Trade payables	248,404	307,378
Other payables	50,897	46,117
Employment taxes	22,139	18,154
Value added tax	48,452	46,035
Accruals	57,376	93,107
Accrued interest on borrowings	77,864	69,379
	<b>545,710</b>	<b>615,087</b>
	June 2013 € '000	December 2012 € '000
Non-current payables:		
Other payables	-	7,813

### 24. DEFERRED INCOME AND GOVERNMENT GRANTS

	Emissions allowances € '000	Supply contributions and other € '000	Total € '000
<b>Balance at 1 January 2012</b>	14,005	663,202	677,207
Receivable	68,554	2,855	71,409
Released to the income statement	(36,204)	(21,542)	(57,746)
Translation differences	144	-	144
<b>Balance at 30 June 2012</b>	46,499	644,515	691,014
<b>Balance at 1 January 2013</b>	12,097	629,986	642,083
Receivable	-	7,887	7,887
Released to the income statement	(11,047)	(20,488)	(31,535)
Translation differences	(229)	-	(229)
<b>Balance at 30 June 2013</b>	821	617,385	618,206
<b>Analysed as follows:</b>			
Non-current liabilities	-	576,403	576,403
Current liabilities	821	40,982	41,803
<b>Total</b>	<b>821</b>	<b>617,385</b>	<b>618,206</b>

## Notes to the Consolidated Condensed Financial Statements

### 25. PROVISIONS

	Power Station Closure Costs € '000	Emissions provisions € '000	Other provisions € '000	Total € '000
<b>Balance at 1 January 2012</b>	173,844	128,128	54,542	356,514
Charged to the income statement				
- Emissions	-	38,601	-	38,601
- Legal	-	-	183	183
- Station Closure	1,043	-	-	1,043
Utilised in the period	(6,333)	(127,475)	(1,458)	(135,266)
Financing Charge	4,395	-	1,180	5,575
Translation differences	78	206	417	701
<b>Balance at 30 June 2012</b>	173,027	39,460	54,864	267,351
<b>Balance at 1 January 2013</b>	142,064	77,215	56,038	275,317
Charged to the income statement				
- Emissions	-	39,654	-	39,654
- Legal	-	-	2,225	2,225
Utilised in the period	(4,376)	(80,274)	(1,971)	(86,621)
Financing charge	1,776	-	555	2,331
Translation differences	(116)	(369)	(503)	(988)
Transfer of liabilities associated with assets held for sale	-	-	(73)	(73)
<b>Balance at 30 June 2013</b>	<b>139,348</b>	<b>36,226</b>	<b>56,271</b>	<b>231,845</b>
<b>Analysed as follows:</b>				
Non-current liabilities	130,927	-	51,639	182,566
Current liabilities	8,421	36,226	4,632	49,279
<b>Total</b>	<b>139,348</b>	<b>36,226</b>	<b>56,271</b>	<b>231,845</b>

#### Power station closure costs

The provision at 30 June 2013 of €139.3 million (December 2012: €142.1 million) for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 2025. As the costs are provided on a discounted basis, a financing charge is included in the income statement and added to the provision in each period. The power station closure provision is re-examined annually and the liability re-calculated in accordance with the current expected station closure dates. Closure costs include physical dismantling costs and costs associated with de-manning the stations on closure.

There are a number of uncertainties that affect the calculation of the provision for station closure, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. The Group has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision. Expected future cashflows are discounted to present value using long term interest rates based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread.

#### Emissions provisions

In accordance with the provisions of the European CO2 emissions trading scheme, a provision is recognised to cover the liability for actual emissions during the year. Under this scheme, emissions allowances covering a percentage of the expected emissions are granted at the beginning of each year by the relevant Authority (see note 10 intangible assets). These allowances, together with any additional allowances purchased during the year, are returned to the relevant Authority in charge of the scheme within four months from the end of that calendar year, in line with the actual emissions of CO2 during the year. The year end provision represents the obligation to return emissions allowances equal to the actual emissions. This obligation is measured at the carrying amount of the capitalised CO2 emissions allowances, in addition to the market value of any additional allowances required to settle the year end liability. From 1 January 2013, new emissions allowances are no longer granted by the relevant Authority but must instead all be purchased.

#### Other

Other provisions represent estimates of liabilities that may arise, to third parties, in respect of claims notified or provided for at the period end. In accordance with normal commercial practice, the provision includes an estimate for liabilities incurred but not yet notified.



## Notes to the Consolidated Condensed Financial Statements

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### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

#### (a) Overview of Financial Risk Management

##### *Risk environment*

The main financial risks faced by the Group relate to liquidity, foreign exchange, interest rate, commodity (electricity and fuel) price movements and operational risk. Policies to protect the Group from these risks, and other risk areas, such as credit risk, are regularly reviewed, revised and approved by the Board as appropriate. Group Treasury is responsible for the day to day treasury activities of the Group. The Board Finance and Performance Improvement Committee is updated on an ongoing basis on key treasury matters and an annual report covering the treasury activity is also submitted to the Committee for review.

Commodity price risk is managed by the front and middle office functions of the relevant business units: ESB Generation and Wholesale Markets and Electric Ireland. This is done in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit. The Group Trading Risk Management function ensures that the Group's market, credit and operational risks are managed in a way to protect the Group from loss, while respecting the ring-fencing obligations in place between the business units.

Contracts entered into in order to hedge exposures arising from the production and sale of electricity may be divided into forward fuel price contracts, forward electricity price contracts and foreign exchange contracts. Financial instruments are derecognised on settlement or sale.

##### *Risk reporting structure*

Through the Chief Executive, the Board has delegated to the Group Trading Committee (GTC) the broader responsibility of managing ESB's trading risk in a manner consistent with the Group's risk tolerances and business strategies. The GTC has established risk limits to manage and limit trading risk exposure at Group and business unit level. These limits are documented for each of the ESB businesses engaged in wholesale trading activities. Furthermore the Group Trading Risk Management Policy is applicable to each of these businesses.

Within each of these business units, a Trading Risk Management Committee has been established to serve as the primary overseer of trading risk at individual ring-fenced entity level. This committee includes the head of the front office function, the Trading Risk (Middle Office) Manager, a representative from Group Trading Risk Management, and the business unit Financial Controller. The Trading Risk Management Committees are responsible for formulating trading risk strategy in accordance with the Group Trading Risk Management Policy and ensuring compliance with same, trading risk limit management and ensuring that there is an effective control framework in place.

The Trading Risk Management Committees report to the GTC. The middle office function in each business unit maintains a separate reporting line to the Group Trading Risk Management function, which is responsible for ensuring that the Group's net exposure to movements in commodity or other price movements is adequately managed in accordance with Group Trading Risk Management Policy. The trading operations of the business units are subject to review by Group Internal Audit.

##### *Hedge accounting*

ESB funds its operations using a combination of borrowings and finance leases, uses deposit instruments to invest surplus funds and uses interest rate and foreign currency instruments to manage interest rate and currency risks that arise in the normal course of operations from US dollar and sterling denominated borrowings, from its foreign currency subsidiaries, and from the use of foreign currency suppliers. Hedge accounting pursuant to IAS 39 is used both for hedges of foreign currency liabilities and interest rate risks from current and non-current liabilities.

In addition, the Group enters into certain commodity hedging transactions to fix fuel costs and to link electricity revenues more closely to fuel inputs, where possible. All of these arrangements are designated into hedge relationships, and in the great majority of cases meet the specific hedging accounting criteria of IAS 39. Where the IAS 39 hedge criteria are met in respect of cross currency swaps, interest rate swaps, foreign exchange contracts, forward fuel price contracts and forward electricity price contracts, all of these instruments are designated as cash flow hedges of highly probable forecast interest, revenue or other operating cost cash flows. Any derivatives on hand which are not specifically designated into hedge relationships from an accounting perspective are nevertheless regarded as valid economic hedges.

## Notes to the Consolidated Condensed Financial Statements

### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (b) Overview of Financial Assets and Liabilities

Financial assets and liabilities, excluding provisions and employee related liabilities, at 30 June 2013 and at 31 December 2012 can be analysed as follows:

	Financial assets at fair value through profit or loss		Assets / (liabilities) held at amortised cost		Derivative financial instruments with hedging relationships		Derivative financial instruments with no hedging relationships		Total	
	December		December		December		December		December	
	June 2013	2012	June 2013	2012	June 2013	2012	June 2013	2012	June 2013	2012
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
<b>ASSETS</b>										
<b>Non-current assets</b>										
Financial asset investments	55,761	48,849	-	-	-	-	-	-	55,761	48,849
Derivative financial instruments	-	-	-	-	383,656	353,628	10	328	383,666	353,956
<b>Total non-current financial assets</b>	<b>55,761</b>	<b>48,849</b>	<b>-</b>	<b>-</b>	<b>383,656</b>	<b>353,628</b>	<b>10</b>	<b>328</b>	<b>439,427</b>	<b>402,805</b>
<b>Current assets</b>										
Trade and other receivables	-	-	699,361	794,131	-	-	-	-	699,361	794,131
Cash and cash equivalents	-	-	133,571	159,405	-	-	-	-	133,571	159,405
Derivative financial instruments	-	-	-	-	106,829	81,966	3,095	2,360	109,924	84,326
<b>Total current financial assets</b>	<b>-</b>	<b>-</b>	<b>832,932</b>	<b>953,536</b>	<b>106,829</b>	<b>81,966</b>	<b>3,095</b>	<b>2,360</b>	<b>942,856</b>	<b>1,037,862</b>
<b>Total financial assets</b>	<b>55,761</b>	<b>48,849</b>	<b>832,932</b>	<b>953,536</b>	<b>490,485</b>	<b>435,594</b>	<b>3,105</b>	<b>2,688</b>	<b>1,382,283</b>	<b>1,440,667</b>
<b>LIABILITIES</b>										
<b>Non-current liabilities</b>										
Borrowings and other debt	-	-	3,866,743	4,124,413	-	-	-	-	3,866,743	4,124,413
Liability for pension obligation	-	-	741,234	723,826	-	-	-	-	741,234	723,826
Trade and other payables	-	-	-	7,813	-	-	-	-	-	7,813
Derivative financial instruments	-	-	-	-	91,069	103,698	484,968	494,054	576,037	597,752
<b>Total non-current financial liabilities</b>	<b>-</b>	<b>-</b>	<b>4,607,977</b>	<b>4,856,052</b>	<b>91,069</b>	<b>103,698</b>	<b>484,968</b>	<b>494,054</b>	<b>5,184,014</b>	<b>5,453,804</b>
<b>Current liabilities</b>										
Borrowings and other debt	-	-	422,991	449,246	-	-	-	-	422,991	449,246
Liability for pension obligation	-	-	57,091	90,941	-	-	-	-	57,091	90,941
Trade and other payables	-	-	545,710	615,087	-	-	-	-	545,710	615,087
Derivative financial instruments	-	-	-	-	72,642	52,254	18,151	18,909	90,793	71,163
<b>Total current financial liabilities</b>	<b>-</b>	<b>-</b>	<b>1,025,792</b>	<b>1,155,274</b>	<b>72,642</b>	<b>52,254</b>	<b>18,151</b>	<b>18,909</b>	<b>1,116,585</b>	<b>1,226,437</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>5,633,769</b>	<b>6,011,326</b>	<b>163,711</b>	<b>155,952</b>	<b>503,119</b>	<b>512,963</b>	<b>6,300,599</b>	<b>6,680,241</b>

The Group's provisions and employee related liabilities are not analysed in the table above, or in the further analysis below. The only exception to this is the liability for pension obligation of €798.3 million at 30 June 2013 (31 December 2012: €814.8 million). See notes 21, 22 and 25 for further information in relation to this and to the other provisions and employee related liabilities.

#### (c) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

<i>Financial assets</i>	June 2013 € '000	December 2012 € '000
Trade and other receivables	699,361	794,131
Financial asset investments	55,761	48,849
Cash and cash equivalents	133,571	159,405
Derivative financial instruments	493,590	438,282
	<b>1,382,283</b>	<b>1,440,667</b>

#### *Trade and other receivables*

Wholesale and credit risk arising from trade and other receivables has been disclosed in note 14 of the most recent annual report, and has not changed significantly since.

## Notes to the Consolidated Condensed Financial Statements

### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (d) Funding and Liquidity Management

##### *Treasury related credit risk (relating to cash and derivative instruments)*

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts and transacts with in the financial markets. The Group's policy is to limit its exposure to each financial institution based on accepted credit ratings of not less than BBB or equivalent.

Trading in derivatives is performed to mitigate financial risks and is executed in compliance with the Specification and Requirements of the Minister for Finance issued under the aegis of the "Financial Transactions of Certain Companies and Other Bodies Act 1992". The Specification and Requirements outline the type of derivatives which ESB can transact and the associated requirements which ESB must satisfy regarding each derivative counterparty. Dealing activities are controlled by putting in place robust dealing mandates with counterparties. The Group does not hold or trade derivative instruments for speculative purposes. Exposures, related limits and compliance with the Minister's Specification and Requirements are subject to ongoing review and monitoring. The Group has not experienced any losses due to failure of such counterparties to deliver on their obligations.

##### *Commodity credit risk (relating to derivatives)*

The Group also has credit risk associated with commodity positions. These arise from derivative financial instruments that are entered into to hedge energy and fuel price risks and are managed in accordance with the Minister's Specification and Requirements ("Financial Transactions of Certain Companies and Other Bodies Act 1992"). The Group establishes counterparty credit risk limits to restrict uncollateralised exposure. Net exposures, collateral requirements and compliance are monitored on an ongoing basis. Collateral, in the form of bonds and guarantees, is required by ESB business units from various parties, specifically in the form of Letters of Credit from certain power Contract for Differences (CfD) counterparties. Total collateral held at year end was €270.0 million (2012: €173.7 million). Given the current economic environment, the Group is particularly cognisant of any changes in the creditworthiness of counterparties, and where such a change occurs all appropriate steps are taken to further secure the Group's position.

#### (e) Foreign currency risk management

Foreign currency exposures arise mainly through the purchase of fuel and power, station overhaul costs required, other purchases denominated in foreign currencies, borrowings in foreign currencies (including the private placement as described in note 19) and investments outside the eurozone.

Foreign currency forward purchase contracts and cross currency swaps are used to reduce volatility arising from foreign currency exposures. The foreign currency forward purchase contracts in place at 30 June 2013 relate to forecast cash flows expected to occur up to 15 December 2023.

At 30 June 2013, ESB's total debt portfolio amounted to €4.3 billion (31 December 2012: €4.6 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

	Before swaps		After swaps	
	30 June 2013 (%)	31 December 2012 (%)	30 June 2013 (%)	31 December (%)
<b>Currency</b>				
Euro	42%	46%	65%	67%
US Dollar	22%	20%	0%	0%
Sterling	36%	34%	35%	33%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The key exchange rates used at 30 June 2013 and 31 December 2012 were as follows:

	30 June 2013	31 December 2012
Foreign currency rate (€1 = US\$)	1.308	1.3194
Foreign currency rate (€1 = Stg£)	0.8572	0.8161

## Notes to the Consolidated Condensed Financial Statements

### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (f) Fair value

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

	30 June 2013		31 December 2012	
	Carrying value € '000	Fair value € '000	Carrying value € '000	Fair value € '000
Long term debt	3,866,743	4,066,304	4,124,413	4,505,509
Short term borrowings (includes finance leases)	422,991	441,771	449,246	482,995
<b>Total borrowings</b>	<b>4,289,734</b>	<b>4,508,075</b>	<b>4,573,659</b>	<b>4,988,504</b>
Derivative financial instruments - liabilities	173,240	173,240	230,633	230,633
Financial assets at fair value through profit or loss	(55,761)	(55,761)	(48,849)	(48,849)
Liability for pension obligation	798,325	798,325	814,767	814,767
Trade and other payables (excluding bank overdrafts)	545,710	545,710	622,900	622,900
Trade and other receivables	(699,361)	(699,361)	(794,131)	(794,131)
Cash and cash equivalents	(133,571)	(133,571)	(159,405)	(159,405)
<b>Net liabilities</b>	<b>4,918,316</b>	<b>5,136,657</b>	<b>5,239,574</b>	<b>5,654,419</b>

As trade and other receivables are all due within one year, and have been provided for where impaired, their carrying value is considered to be materially in line with their fair value.

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate in line with swap market convention. The fair value of trade and other payables is calculated based on the present value of future cash flows, discounted at the market rate of interest at the reporting date.

#### Fair value - discount rates

The interest rates used to discount future estimated cash flows, where applicable, are based on a zero-coupon discount curve at the reporting date plus an appropriate credit spread, and were as follows:

	30 June 2013 %	31 December 2012 %
Other loans and borrowings	3.3%	3.3%
Derivative financial instruments	1.6%	1.1%
Liability for pension obligation	5.0%	5.0%
Trade and other payables	2.3%	2.7%

## Notes to the Consolidated Condensed Financial Statements

### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (g) Fair value hierarchy

The table below analyses financial assets and liabilities carried at fair value, by valuation method. The different levels relevant to financial assets and liabilities held by the Group have been defined as follows:

- Level 2: inputs, other than unadjusted quoted prices in active markets for identical assets and liabilities, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### 30 June 2013

	Level 2 € '000	Level 3 € '000	Total € '000
<b>Assets</b>			
Derivative financial instruments			
Foreign exchange contracts	17,743	-	17,743
Forward fuel price contracts	20,405	242,342	262,747
Forward electricity price contracts	-	204,206	204,206
Interest rate swaps	8,895	-	8,895
Financial assets at fair value through profit or loss	-	55,155	55,155
	<b>47,043</b>	<b>501,703</b>	<b>548,746</b>
<b>Liabilities</b>			
Derivative financial instruments			
Currency swaps	107,649	-	107,649
Interest rate swaps	19,263	-	19,263
Inflation linked interest rate swaps	-	478,617	478,617
Forward fuel price contracts	52,183	-	52,183
Foreign exchange contracts	9,119	-	9,119
	<b>188,214</b>	<b>478,617</b>	<b>666,831</b>
<b>Net (liability) / asset</b>	<b>(141,171)</b>	<b>23,086</b>	<b>(118,085)</b>

#### 31 December 2012

	Level 2 € '000	Level 3 € '000	Total € '000
<b>Assets</b>			
Derivative financial instruments			
Foreign exchange contracts	8,872	-	8,872
Forward fuel price contracts	505	268,713	269,218
Forward electricity price contracts	-	160,192	160,192
Financial assets at fair value through profit or loss	-	48,260	48,260
	<b>9,377</b>	<b>477,165</b>	<b>486,542</b>
<b>Liabilities</b>			
Derivative financial instruments			
Currency swaps	108,803	-	108,803
Interest rate swaps	20,642	-	20,642
Inflation linked interest rate swaps	-	501,093	501,093
Forward fuel price contracts	32,697	654	33,351
Forward electricity price contracts	-	-	-
Foreign exchange contracts	5,026	-	5,026
	<b>167,168</b>	<b>501,747</b>	<b>668,915</b>
<b>Net liability</b>	<b>(157,791)</b>	<b>(24,582)</b>	<b>(182,373)</b>

## Notes to the Consolidated Condensed Financial Statements

### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

#### (g) Fair value hierarchy (continued)

The following table shows a reconciliation from opening balances at 1 January 2013 to the balances at 30 June 2013 for fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets at fair value through profit or loss € '000	Forward electricity price contracts € '000	Forward fuel price contracts € '000	Inflation linked interest rate swaps € '000	Total € '000
Opening balance	48,260	160,192	268,059	(501,093)	(24,582)
Purchases	11,467	-	-	-	11,467
Total gains or losses:					
in profit or loss	(4,572)	-	-	(9,160)	(13,732)
in OCI	-	52,967	(1,810)	-	51,157
Settlements	-	(8,953)	(23,907)	6,294	(26,566)
Translation differences	-	-	-	25,342	25,342
<b>Closing balance - net</b>	<b>55,155</b>	<b>204,206</b>	<b>242,342</b>	<b>(478,617)</b>	<b>23,086</b>

The fair value of financial assets at fair value through profit or loss is based on either (i) the most recent fund valuation statement available, or (ii) the valuation methodology used in accordance with International Private Equity and Venture Capital Valuation Guidelines, which have been developed by a number of international venture capital associations. As this requires the use of model based valuation techniques, with a number of unobservable inputs, all financial assets at fair value through profit or loss have been categorised as Level 3 investments in the current year.

Forward fuel price contracts and forward electricity price contracts included at Level 3 in the fair value hierarchy relate to long term contracts whose valuations are based on a number of forward price assumptions, with some unobservable inputs, including assumed forward electricity, carbon and gas inputs for longer term periods. Settlements form part of revenue and fuel costs in the income statement.

## Notes to the Consolidated Condensed Financial Statements

### 27. COMMITMENTS AND CONTINGENCIES

	June 2013 € '000	June 2012 € '000
(a) <b>Capital commitments</b>		
Capital commitments contracted for during the period	<u>83,856</u>	<u>125,573</u>

#### (b) **Fuel contract commitments**

There are a number of long term gas supply arrangements in place for different periods up to 2020. These arrangements provide for pricing changes in line with changes in inbuilt energy market indicators. Where appropriate, embedded derivatives have been separated and valued in accordance with IAS 39.

#### (c) **Other disclosures**

A claimant has issued legal proceedings in relation to the 2009 flooding in Cork (Ireland) seeking to recover circa €19 million for property damage. There is a possibility of additional property damage claims being brought. ESB intends to strenuously defend all such claims. On the basis of advices obtained, ESB believes that it has a good defence to these claims, and accordingly, no provision has been made for such claims in the financial statements.

On 22 February 2012 the Irish Government announced that it had decided to pursue a proposal to dispose of some of ESB's non-strategic generation capacity.

Further to that decision, on 24 October 2012, the Government requested ESB to develop proposals for the sale of some non-strategic generation capacity, with the specific objective of delivering special dividends to the Government targeted at up to €400 million by the end of 2014. In making this request, the Government has reaffirmed its commitment that ESB will:

- remain as a vertically integrated utility (VIU) in State ownership;
- maintain its strong credit rating to ensure access to funding in order to deliver its investment in key infrastructure; and
- retain significant scale in Generation to compete in the all-islands (Ireland and UK) market, while continuing to move to an appropriate market share in Ireland.

The disposal of the joint venture investments in Bizkaia Energia SL and Marchwood Power Limited have progressed sufficiently so as to be reclassified as held for sale at the balance sheet date (see note 16).

### 28. RELATED PARTY TRANSACTIONS

#### **Semi-State Bodies**

In common with many other entities, ESB deals in the normal course of business with other government sponsored bodies such as Bord Gais and Bord na Móna. Long-term agreements are negotiated between ESB and Bord na Móna in relation to the purchase of peat for the Midland Stations.

#### **Banks owned by the Irish state**

In the normal course of business ESB transacts with certain Irish banks which have become wholly or partially controlled by the Irish government. All of ESB's transactions with such banks are on normal commercial terms. ESB had no material concentration of borrowings with any such banks during the period or at 30 June 2013. A portion of the cash and cash equivalents as disclosed in note 15 was on deposit with such banks.

#### **Board Members' interests**

Other than agreed allocations under ESOP, Board Members had no beneficial interest in ESB or its subsidiaries at any time during the year.

#### **Joint ventures**

During the period the Group provided services to its joint ventures Bizkaia Energia SL, Oweninny Power Limited and Emerald Bridge Fibres Limited. No services were provided to Marchwood Power Limited.

During the period services to Bizkaia Energia SL amounted to €3.3 million (June 2012: €nil), Oweninny Power Ltd €0.5 million (June 2012: €2.4 million) and Emerald Bridge Fibres Limited €0.1 million (June 2012: €0.1 million).

No capital funding was provided to the joint ventures in 2013 (June 2012: €0.5 million was provided to Emerald Bridge Fibres Limited). The group was not owed any capital funds from the joint ventures at June 2013 (June 2012: €0.5 million was owed by Bizkaia Energia SL).



## Notes to the Consolidated Condensed Financial Statements

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### 29. ESTIMATES AND JUDGEMENTS

Preparation of consolidated financial statements requires a significant number of judgemental assumptions and estimates to be made. These impact on the income and expenses contained within the income statement and the valuation of the assets and liabilities in the balance sheet. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation.

Key judgemental accounting policies are described in Note 28 of the 2012 Annual Report. There has been no change to the nature of these during the period and they are still considered to be the most subjective in deriving our financial statements.

### 30. SUBSEQUENT EVENTS

#### **Dividend policy**

On 23 July 2013 the Minister for Communications, Energy and Natural Resources informed ESB that a review is being undertaken of Government dividend policy with respect to ESB. The Minister noted the need for ESB to have certainty on dividend policy over the medium to long term to enable informed decisions to be made on financial management and investment, and to provide clarity and assurance to financial markets. He also restated the Government's commitment to ESB continuing to progress as a financially strong State-owned company.

The Minister also requested ESB to constructively consider the payment of an additional dividend of €65 million in 2013.

The Minister has subsequently requested ESB to develop a new dividend policy within the Government's overall policy objective of ESB maintaining a capital structure and financial policies consistent with an investment grade credit rating of no less than BBB+ / Baa1. The new dividend policy is targeted to be finalised no later than 31 October 2013.

ESB is currently working with the relevant Government departments to develop the new dividend policy, and will consider the Minister's request for an additional €65 million dividend in 2013 in the context of that new policy and having regard to the financial position of the company.

#### **ESB Superannuation (Pension) Scheme**

Proceedings have been issued against ESB by four claimants in relation to the ESB Superannuation (Pension) Scheme. The proceedings are at a very early stage and a statement of claim has not been yet delivered, however ESB understands that the claims relate to the nature of its obligations under that Scheme and ESB's dividend policy. On the basis of the general endorsement of claim filed and advices obtained to date, ESB believes that the claims made will not succeed and intends to fully defend the proceedings. Accordingly, no provision has been made for such claims in the financial statements.

### 31. APPROVAL OF THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The Board approved the financial statements on 26 September 2013.

